

## Message Text

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PAGE 01 STATE 305740  
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C O N F I D E N T I A L STATE 305740

FOL PEKING 2948 SENT ACTION SECSTATE DEC 15, 1977 REPEATED  
TO YOU QUOTE

C O N F I D E N T I A L PEKING 2948

E.O. 11652: GDS

TAGS: ESTC CH US

SUBJ: IBM SALE OF MODEL 370/138 COMPUTER FOR SHENYANG BLOWER WORKS

1. SUMMARY. IBM ON VERGE OF SELLING MODEL 370/138  
COMPUTER TO CHINESE FOR USE IN CONJUNCTION WITH NEW  
COMPRESSOR MANUFACTURING EQUIPMENT AT SHENYANG  
BLOWER WORKS. CONTRACT INCLUDES PROVISIONS FOR  
SERVICING OVER TWO YEAR PERIOD. IBM FILED FOR US  
EXPORT LICENSE IN MARCH 1977. WE RECOMMEND EXPEDITIOUS  
HANDLING OF THIS LICENSE APPLICATION. END SUMMARY.

2. IBM WORLD TRADE DIRECTOR AMERICAS/ FAR EAST  
CHARLES W. SWIFT CALLED ON AMBASSADOR WOODCOCK ON  
DECEMBER 14 TO BRIEF USLO ON STATUS OF COMMERCIAL  
NEGOTIATIONS WITH MACHIMPEX FOR SALE OF MODEL 370/138  
COMPUTER AND RELATED PERIPHERALS. SWIFT SEEMED QUITE  
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CONFIDENT THAT FINAL CONTRACTUAL DETAILS WOULD BE WORKED  
OUT AND CONTRACT SIGNED DURING HIS VISIT. IBM  
COMPUTER WOULD BE USED IN CONJUNCTION WITH  
COMPRESSOR MANUFACTURING EQUIPMENT TO BE PROVIDED  
BY ITALIAN FIRM NUOVO PIGNONE.  
SMITH SAID IBM'S DISCUSSIONS WITH CHINESE  
ON THIS SALE BEGAN IN OCTOBER 1976 AND COMMERCIAL

PHASE OF THE NEGOTIATIONS COMMENCED MAY 1977.  
(IBM TEAM HAS BEEN IN CHINA NEGOTIATING ALMOST  
CONTINUOUSLY SINCE LAST SPRING.)

3. IF CONTRACT IS CONCLUDED, DELIVERY IS SET  
FOR DECEMBER 1978. IBM ANTICIPATES INSTALLATION  
PERIOD OF APPROXIMATELY ONE MONTH FOLLOWED BY A  
MAINTENANCE PERIOD OF TWO YEARS. CONTRACT INCLUDES  
PROVISIONS FOR LUMP SUM SERVICE CHARGE TO COVER  
COSTS OF MAINTENANCE. SWIFT EXPRESSED SOME  
CONCERN OVER PROFESSIONAL COMPETENCE OF CHINESE  
PERSONNEL ON-SITE WHO WILL BE OPERATING EQUIPMENT  
AND THEIR ABILITY TO PERFORM EVEN ROUTINE  
MAINTENANCE. HE INDICATED IBM ANTICIPATED MAKING  
FREQUENT VISITS TO THE PLANT SITE FOR SERVICING,  
PERHAPS ON A MONTHLY BASIS. (IBM NEGOTIATORS  
AL JOSEPH AND JOHN RYAN WERE ABLE TO VISIT SHENYANG  
BLOWER WORKS FOR THE FIRST TIME LAST WEEKEND.)

4. SWIFT SAID IBM FILED FOR US EXPORT LICENSE IN  
MARCH 1977 ON THE BASIS OF CHINESE LETTER OF INTENT.  
HE EXPRESSED SOME CONCERN OVER PROSPECTS FOR  
ISSUANCE. (NOTE: IBM NEGOTIATING TEAM TOLD  
USLO THAT CHINESE HAVE MADE FREQUENT DISPARAGING  
REFERENCES TO US AND COCOM EXPORT CONTROLS  
AND HAVE REPEATEDLY THREATENED TO GO TO OTHER  
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(NON-US) SUPPLIERS WHO WOULD CIRCUMVENT REGULATIONS.)

5. SWIFT SAID THAT TO REDUCE TRANSPORT COSTS,  
CHINESE HAVE REQUESTED THAT COMPUTER BE  
ASSEMBLED IN JAPAN RATHER THAN US. HE THOUGHT  
IBM MIGHT HAVE A PROBLEM OBTAINING JAPANESE  
EXPORT LICENSE IN VIEW OF US POSITION ON HITACHI  
COMPUTER CASE. WE WOULD APPRECIATE DEPARTMENT VIEWS ON  
THIS POINT.

6. COMMENT: IBM CONTRACT OBVIOUSLY REPRESENTS  
SIGNIFICANT SALE OF US EQUIPMENT IN HIGH PRIORITY  
AREA TO PRC. WE RECOMMEND THAT USG MAKE PROMPT  
AND FAVORABLE (SUBJECT TO APPROPRIATE END-USE  
SAFEGUARDS) DECISION ON LICENSE APPLICATION. WE  
BELIEVE EXPEDITIOUS HANDLING OF IMPORTANT CASES  
SUCH AS THIS ONE WILL BE AN INDICATION TO CHINESE  
OF INCREASED USG WILLINGNESS TO FACILITATE TRADE  
DURING PRESENT PERIOD OF BILATERAL RELATIONS.  
MOREOVER, A SIGNAL THAT US IS PREPARED TO BE  
FORTHCOMING IN HANDLING EXCON CASES IS PARTICULARLY  
IMPORTANT NOW, IN TERMS OF US COMPETITIVE

POSITION IN PRC MARKET, SINCE WE ANTICIPATE PRC  
WILL STEP UP IMPORTS OF FOREIGN EQUIPMENT  
IN 1978 IN A NUMBER OF AREAS AND PRC DECISION  
PROCESS ON PROSPECTIVE IMPORTS PRESUMABLY  
UNDERWAY NOW. FINALLY, EXPEDITIOUS HANDLING OF  
THIS CASE MAY ALLEVIATE TO SOME EXTENT SPECIFIC  
CONCERNS CHINESE HAVE EXPRESSED TO IBM RE EXCON.  
WOODCOCK UNQUOTE VANCE

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## Message Attributes

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**TAGS:** ESTC, CH, US, FR  
**To:** TOKYO  
**Type:** TE  
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